

Resolution No.: 15-930
Introduced: March 15, 2005
Adopted: March 22, 2005

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Approval of Closing Cost Assistance Revolving Fund Program Guidelines and Management Plan

Background


1. Section 25B-14 of the County Code establishes a revolving fund to make closing cost assistance loans.
2. On May 27, 2004, the County Council approved Resolution 15-630 that directed the County Executive to allocate \$1,000,000 in Fiscal Year 2005 from the Housing Initiative Fund to the Housing Opportunities Commission to begin to capitalize a closing cost assistance revolving fund.
3. Resolution 15-630 further directs the Housing Opportunities Commission to work with the Department of Housing and Community Affairs to prepare and present for Council approval a financial management plan for the revolving fund and terms and conditions for issuance of loans from the revolving fund.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

The attached document, Closing Cost Assistance Revolving Fund Program Guidelines and Management Plan, is approved.

This is a correct copy of Council action.


Elda M. Dodson, CMC
Acting Clerk of the Council

**MONTGOMERY COUNTY
CLOSING COST ASSISTANCE REVOLVING FUND
PROGRAM GUIDELINES and MANAGEMENT PLAN**

I PROGRAM GUIDELINES

The Montgomery County Closing Cost Assistance Revolving Fund will be managed by the Housing Opportunities Commission (HOC) consistent with the following program guidelines.

- The assistance will be in the form of a secured loan and not a grant.
- The maximum amount of assistance is 5% of the sales price but not more than \$10,000.
- Income limits will be set at median.
- At least one borrower must work in the County at the time of loan issuance.
- Only first time home buyers are eligible. A first time home buyer is a person who has had no ownership interest in his/her primary residence during the last three years. (This is the federal definition of first time home owner used by HOC in its Mortgage Purchase Program)

In addition to the preceding program guidelines, other program features include the following:

1. The assistance will be due and payable upon resale or refinance of the property.
2. The maximum amount of assistance will be 5% of the sales price but not to exceed \$10,000.
3. The second mortgage will have a term of 10 years and carry an interest rate of 5%. Payments will be amortized in regular monthly installments over 10 years. (A monthly payment on the maximum amount of \$10,000 is \$106.)
4. The assistance is available only with an HOC first mortgage. The HOC program provides for continuous lending which maintains the availability of HOC mortgage funds at all times. In addition, HOC has a participating lender group of 16 lenders. HOC continues to solicit participation from new lenders.
5. The assistance is available only to first time home buyers. A first time home buyer is defined as a person who has had no ownership interest in his/her primary residence at any time during the previous three years. This is the federal definition which regulates HOC's Mortgage Purchase Program.

6. At least one borrower must work in Montgomery County at the time of loan issuance. Working in the County can also mean an offer of employment which will be effective as of the settlement date on the property.
7. Assistance will be made available on a first come, first served basis.
8. Borrowers must be occupants; cosigners of the mortgage who do not intend to occupy the property will not be allowed.
9. Home inspections for existing properties and certification from a homeowner education course will be required.
10. Income and sales price limits will coincide with limits for the HOC first mortgage program.
11. An application fee of \$100 will be charged at settlement. This fee will be used to defray future legal fees to handle defaults and to pay for the cost of home owner education which is required.

II ADMINISTRATION

The cost of administering the program consists of HOC's allocation of staff time, legal fees for defaults and homeowner education. The Commission's reimbursement for administration will come from the revenue generated by the program itself. HOC will not charge for staff expense for the first year. Because use of the closing cost funds will be linked to using an HOC first mortgage, marketing of the closing cost program will coincide with the marketing of HOC's Mortgage Purchase Program.

The concept of the program is to be a revolving fund which can sustain the cost of administration as well as produce revenue for recycling into more closing cost loans.

III SERVICING

Servicing of the closing cost mortgages may be managed by a contractor. The cost of servicing will be a flat fee of \$6 per loan per month and will be deducted from the incoming monthly payment of each borrower, a procedure commonly used in mortgage servicing. In some cases, the contractor will service both the closing cost loan and the HOC first mortgage, a consolidation which will allow the borrower to make a single payment and which should contribute to lower delinquency rates.

IV HOMEOWNER EDUCATION

Homeowner education will be required of at least one borrower in a household using the closing cost program, as it was in the previous program. This instruction is offered in the County by the non-profit organization, Housing and Community Initiatives, Inc. (HCII) (formerly known as Housing Charities, Inc.). This organization provided homeowner education in the previous closing cost program and currently performs preliminary reviews of MPDU applications for the County.